## Death, Taxes and Death Taxes - How can I reduce taxes now for my kids when they inherit after my death?

**5 MIN. READ**

There's nothing certain in life but death, taxes and, of course, death taxes... and perhaps increases in estate taxes that are [already being proposed](https://taxfoundation.org/joe-biden-estate-tax-wealth-tax/) by the Biden Administration in response to recent pandemic spending. So, what are some ways to reduce the taxes your kids will pay when they inherit the assets you've been accruing for them? There are specific actions you can take now, actions that will take effect after you die and some general measures you can take advantage of along the way.

### Reducing the size of your estate

Depending on the anticipated amount of your estate, you may want to consider reducing it during your lifetime. The current federal limit of $11 million on the [un-taxed portion](https://www.bloomberg.com/news/articles/2021-04-27/biden-to-omit-estate-tax-expansion-from-coming-economic-package#:~:text=Biden%20during%20the%202020%20campaign,greater%20share%20of%20federal%20revenue.) of your estate is expected to decrease under the new administration. You can begin planning to reduce any potential estate taxes by consulting with a [financial advisor](https://fta-ria.com/) like [COMPANY NAME]. Consider one or more of these steps now:

#### Make gifts to your heirs

Gift tax limits through 2021 are [$15,000 per heir](https://www.wsj.com/articles/estate-and-gift-taxes-2020-2021-heres-what-you-need-to-know-11617908256#:~:text=gift%2Dtax%20exemptions-,For%20both%202020%20and%202021%2C%20the%20annual%20gift%2Dtax%20exclusion,free%20of%20federal%20gift%20taxes.). Together, you and your spouse can gift each heir $30,000 per year free from any tax consequences. Only two states impose a gift tax. So, unless you live in Connecticut or Minnesota, you won't need to factor that issue into your plans.

#### Hold on to low basis assets that have current high values

Your heirs will receive the assets at the stepped-up basis of their value at the date of your death. This lets you and them avoid the capital gains taxes on the appreciation in the assets while you owned them. That is much better planning than you liquidating and paying those capital gains taxes now.

#### Make use of Uniform Transfers to Minors accounts

If you have minor children, you can make irreversible transfers of assets to them in a Uniform Transfers to Minors Act (UTMA) custodial account. All of the states have enacted some form of UTMA or its predecessor, the Uniform Gifts to Minors Act. At last count, only South Carolina and Vermont remained UGMA states. UTMA allows [outright gifts and other permanent transfers](https://secure.ssa.gov/poms.nsf/lnx/0501120205). This includes payments owed to a minor and transfers of property to the minor's custodian. There is no specific limit on the amount of a gift to UTMA accounts, however they are also subject to gift tax limits.

#### Make lifetime charitable contributions that will not be final until your death

You can make an [irrevocable gift](https://www.acga-web.org/donor-guide-to-gift-annuities) of cash or assets to a charitable organization and receive a lifetime stream of payments (that is, an annuity) in return. Generally, the older you are when you make the gift, the higher the payments are. Since the income you receive will be annuity payments, this income may also enjoy favorable tax treatment during your remaining life. Giving this kind of charitable remainder trust gift means that you can make a significant gift to a charity and reduce the size of your estate, even though you keep the income from those assets until your death.

### Using a trust

Making transfers to an irrevocable trust takes assets out of your estate valuation at your death. There are several ways to do this, and [[COMPANY NAME]](https://fta-ria.com/) can help you find the ones that will help you reduce death taxes:

#### Charitable lead trusts pay income during your life to the charity and principal to your heirs at your death

A [charitable lead trust](https://www.pgdc.com/pgdc/charitable-lead-trust) allows you to assign income to a charity during your lifetime. It also preserves the asset for your heirs at your death. Because the income-producing assets are owned by the trust and not by you, they are no longer in your estate. This transfer reduces the value of your estate by the value of the assets when moved to the trust. Meanwhile, your heirs can still receive the assets after your death.

#### Qualified personal residence trusts take a high-value asset out of your estate while allowing you to continue to live there

A qualified personal residence trust takes the value of a very significant asset - your home - out of your estate and puts it into a trust for your beneficiaries. The gift amount is reduced by the value of your continued residence in the house. However, the high-value asset will not be in your estate or taxable at your death. Given the current rebound in the housing market from the pandemic-induced lull, this is an asset whose value is likely to be large and getting larger. Moving it out of your estate could make a significant difference as the exclusion goes down.

#### Qualified life insurance trusts decrease the size of the estate only by the amount of the premium. They leave the estate with an asset that's not part of the estate

With a [qualified life insurance trust](https://money.usnews.com/financial-advisors/articles/what-advisors-should-know-about-irrevocable-life-insurance-trusts), you purchase an irrevocable life insurance trust. The purchase only decreases the value of your estate by the cost of the premium payments, but it creates a potentially large asset for your heirs. More importantly, that asset will be available very quickly after your death. It won't be subject to probate and will consist of tax-free insurance proceeds.

### Reduce your death taxes

As suggested above, the estate tax rates and exclusions are a prime target for change in the current administration. Spending money in multi-trillion dollar amounts for pandemic relief means that the government will need the same multi-trillions to try to pay it off. You should begin planning now to avoid the impact that much smaller exclusions and much higher estate tax rates could have on your heirs.

Contact a [financial advisor](https://fta-ria.com/) at [COMPANY NAME] and start your plans for death taxes before the current $11-million exemption from taxation shrinks or disappears.

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